

THE LEONARD LETTER

March 28, 2005

QUOTE OF THE WEEK

"From the saintly and single-minded idealist to the fanatic is often but a step."

-- Friedrich August von Hayek

(1899-1992), Nobel Laureate of Economic Sciences 1974

UNDER THE DOME

*****Conservative Malcontent or Media Misdirection? *****

One headline I saw last week sums up my frustration with California's current political climate. It read, "Conservatives' reactions mixed to Schwarzenegger reform package." The Governor's cited reform package includes restoring the Governor's power to control state spending. The article quotes an anonymous conservative claiming that such power is not enough. However, there is no way of discerning, from the article I read, the true nature or extent of conservative discontent. The person quoted refused to identify him- or herself, and I am suspicious over how big the fracture is when the newspaper does not give sources.

I have no doubt there are some who object to the Governor's plan because I have heard it since 1979 when, as a legislator, I authored the legislative version of the original Gann Spending Limit. Personally, I would like to see the Gann Limit totally restored, but I applaud the Governor for standing up for the principle that governors need the power to govern and for working on a plan to add constitutional restraints on a runaway legislature. The public's ability to understand and reach conclusions about this disagreement is not served by news coverage that relies on anonymous sources.

*****The Cost of the Special Election*****

I keep reading newspaper columnists complaining about the "high cost" of the special election that Governor Schwarzenegger is expected to call later this year. Depending on the source, the total cost to the taxpayers is estimated between \$35 million and \$70 million. This is a substantial sum, but the newspapers never seem to place it in the proper context.

The state population is now more than 36 million, so the cost of this special election is somewhere between 94 cents and \$1.94 per person. To put this in perspective, the State of California spends an average of about \$3,000 for every man, woman, child and newborn baby in the state EVERY YEAR. In addition to the funds received from the state, school districts and local governments collectively spend well over \$1,000 MORE on a per-capita basis. Thus, total spending is well over \$4,000 per person every year (although you might not believe it, given the level of services you actually receive).

Thus, even using the high estimate of \$1.94 per person, the one-time cost of this special election is only about five hundredths of one percent of annual per capita government spending. I do not know anyone who would argue that \$1.94 is too much to spend to decide how to spend \$4,000 and live within our means!

*****Reality Check on a Time Check*****

Journalists have had their first look at the calendars of statewide elected officials and the articles written about them are rife with conclusions that these officials do not do much. That may be a popular opinion and is grounded in people's prejudices about public service, but the conclusion is marred because the official calendars do not show a real picture of a day in the life of an elected. Official calendars cannot give an accurate picture because electeds receive input from people in a variety of ways, most of which never make a schedule. There is also a lot of study and reading time required that does not show up on a calendar. To say, as one newspaper report did, that Lt. Governor Bustamante is not busy because his official schedule has only one event scheduled on a given day shows ignorance about how electeds work.

*****Taxpayer-Friendly Tax Bills*****

If you are a regular Leonard Letter reader then you are familiar with the changes I believe would help improve the administration of California's tax laws, increasing efficiency and fairness. Several of my ideas have been introduced as legislation this session. Here are the bill numbers, authors and summaries of my proposals. I ask for your support of these measures; please contact your legislators and encourage their 'aye' votes to help fix what is broken about California's tax system.

SCA 9 (Ducheny), and ACA 14 (DeVore): Combines the Franchise Tax Board and the Employment Development Department with the Board of Equalization to form a new, comprehensive state Tax Commission under a Board of elected officials.

SB 633 (Dutton): If you are accused of a crime in court, the burden of proof of your guilt is with the government. If you are a taxpayer accused of wrongdoing, the burden is on you to prove your innocence. In 1998, the federal government passed a reform that shifted the burden of proof from taxpayers to the IRS for factual issues when dealing with cooperating taxpayers. This measure would bring that same change to California.

SB 234 (Runner): If you are thinking of appealing an income tax case before the BoE, the FTB will allow the public to see your entire tax return, including your personal information. I find this outrageous. This bill would limit the kind of taxpayer information that can be released to the public to only those issues in question that are appealed to the Board by the taxpayer.

AB 1692 (Horton): I am co-sponsoring this proposal with Board Member Claude Parrish. The bill would allow for the reimbursement of 2% of the taxes remitted for retailers, under certain conditions, for the retailer's costs incurred for complying with the law.

I also support AB 1615 (Klehs) and SB 216 (Dutton) – both bills would consolidate the FTB, EDD and Department of Insurance, into the BoE.

TAX UPDATE

*****Higher Sales Taxes Coming to a District Near You*****

Let me share with you why you sometimes pay as much as 8.75% sales tax on your purchases in California. The combined state and local sales tax rate of 7.25% is made up of a state component (6.25%) and the city/county component of 1%. However, way back in 1969, the Legislature enacted the district tax where local jurisdictions (Special Tax Jurisdictions) may impose an additional sales and use tax. STJ taxes can add an additional .125 to .5 percent tax on top of the statewide rate. But STJs are stackable in an area. Depending where you buy goods, you may be paying 2 or 3 STJ rates on top of the statewide rate. At the end of the last fiscal year, there were 41 STJs in California. There will be 65 by April 1. Staff informs me that another 15 localities have contacted the Board about implementing new ones. So it appears possible that in relatively short order, you may find it difficult to find a place in California where the sales tax is less than 8% of your purchase.

*****Small Victory*****

One pair of taxpayers experienced a small and rare victory this week at the Board of Equalization hearing. This couple had been appealing their state income tax audit for five years. During that five years, there were long stretches of time where the state did nothing on their appeal. In fact, when they hired a new attorney, it took him 12 months to even get a meeting scheduled with Board staff. The taxpayers asked the Board to waive the interest that accrued during all the time when they were ready to talk and act but the state was sitting on its hands doing nothing. Fortunately, the Board agreed on a 4-1 vote to waive the interest. I hope that was a message to staff not to delay and procrastinate. Whether its true or not it raises the suspicion that the tax agents are delaying on purpose in order to eventually get more interest money out of the taxpayer.

MISCELLANY

*****A Good Read*****

Henry Hazlitt wrote “Economics In One Lesson” back in 1946 because he observed “economic fallacies that are at last so prevalent that they have almost become a new orthodoxy.” His concern was that economic policies all over the world were “influenced if not wholly determined by acceptance of some of these fallacies.” In very readable, entertaining, accessible prose, Hazlitt explains his main point: “The art of economics consists in looking not merely at the immediate but at the longer term effect of any act or policy; it consists in tracing the consequences of that policy not merely for one group but

for all groups.” He then walks through several common policies based on economic fallacies: public works projects, tariffs, minimum wage, rent control. He writes in a common sense tone, and instead of relying on statistics or formulas, uses straightforward language and examples that make it clear to understand the fallacies, analyze the policies and reach solid conclusions about how to examine any economic policy. I especially recommend this book to high school and college economic students who may be overwhelmed by charts and graphs. This book makes the most important lessons of an economic education accessible and applicable to your life.

BOE AND LEGISLATIVE DATES

February 1 – March 31, 2005 --- Application period for tax amnesty.

March 28, 2005 --- Cesar Chavez’s birthday observed.

March 29, 2005 --- Legislature reconvenes from spring recess.

April 12, 2005 --- BoE meets in Sacramento.

April 29, 2005 --- Last day for policy committees to hear and report fiscal bills.

May 20, 2005 --- Last day for policy committees to meet prior to June 6.

NOTABLE DATES/ HISTORY

March 28, 1885 --- U.S. Salvation Army was officially organized.

March 28, 1917 --- Jews were expelled from Tel Aviv & Jaffa by Turkish authorities.

March 28, 1964 --- 9.2 earthquake shook Prince William Sound, Alaska.

March 28, 1969 --- Dwight D. Eisenhower, the 34th president of the U.S., died at age 78.

March 29, 1848 --- Niagara Falls stopped flowing for 30 hours due to an ice jam.

March 29, 1865 --- The Civil War’s final campaign, Appomattox, began, resulting in 7582 being killed.

March 29, 1971 --- Lt. William Calley, Jr., was found guilty of murdering Vietnamese civilians in the My Lai disaster.

March 30, 1867 --- The U.S. purchased Alaska from Russia for \$7,200,000 (2¢ an acre) in what was called “Seward's Folly” at the time.

March 30, 1981 --- President Ronald Reagan was shot and wounded by John W Hinckley III.

March 31, 1922 --- KFI-AM in Los Angeles, CA began radio transmissions.

March 31, 1963 --- Los Angeles ended streetcar service after 90 years.

April 1, 1748 --- The ruins of Pompeii were found.

April 1, 1850 --- San Francisco County government was established.

April 2, 1917 --- President Wilson asked Congress to declare war against Germany.

April 2, 1954 --- Plans to build Disneyland were first announced.

April 3, 1860 --- Pony Express service began between St Joseph, MO and Sacramento, CA.

April 3, 1949 --- KQW-AM in San Francisco, CA changed its call letters to KCBS.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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